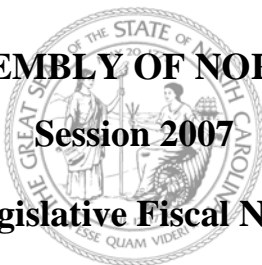


GENERAL ASSEMBLY OF NORTH CAROLINA



Session 2007

Legislative Fiscal Note

**BILL NUMBER:** House Bill 906 (First Edition)

**SHORT TITLE:** No Penalty for Teachers Taking Personal Leave

**SPONSOR(S):** Representatives Alexander, McLawhorn, Rapp, and T. Harrell

<b>FISCAL IMPACT</b>					
	Yes (X)	No ( )	No Estimate Available ( )		
	<u>FY 2007-08</u>	<u>FY 2008-09</u>	<u>FY 2009-10</u>	<u>FY 2010-11</u>	<u>FY 2011-12</u>
<b>EXPENDITURES</b>					
(in millions):					
<b>General Fund</b>					
Teacher Salaries	\$3.8	\$3.9	\$4.1	\$4.2	\$4.3
Non-Instructional Support Allotment*	(\$3.8)	(\$3.9)	(\$4.1)	(\$4.2)	(\$4.3)
Projected Increase in Non-Instructional Allotment	\$0.0-23.7	\$0.0-11.3	\$0.0-11.7	\$0.0-12.0	\$0.0-12.4
<i>For detailed explanation, see Assumptions and Methodology section.</i>					
Local Funds	\$0.2-1.6	\$0.2-0.7	\$0.2-0.7	\$0.2-0.7	\$0.2-0.7
Federal Funds	\$0.3-1.6	\$0.3-0.8	\$0.3-0.8	\$0.3-0.8	\$0.3-0.8
<b>POSITIONS</b>					
(cumulative):	N/A				
<b>PRINCIPAL DEPARTMENT(S) &amp; PROGRAM(S) AFFECTED:</b> Local Education Agencies (LEAs), State Public School Fund, Department of Public Instruction (DPI)					
<b>EFFECTIVE DATE:</b> July 1, 2007.					
* <b>Note:</b> Net General Fund (GF) expenditures will not decrease, but the State will allot \$3.8 to \$4.3 million less annually to LEAs for paying substitute teachers. LEAs will also face increased expenditures for substitute teachers of up to \$23.7 million (including one-time costs of up to \$12.7 million) in FY 2007-08 and up to \$11.3-11.7 million annually thereafter. These expenditures appear under the GF heading because it is assumed that the General Assembly will appropriate additional funds to cover the LEAs' increased expenditures for substitute teachers.					

**BILL SUMMARY:** The bill eliminates the \$50 deduction from salary required under current statute<sup>1</sup> for a teacher using personal leave on an instructional day.

<sup>1</sup> G.S. 115C-302.1(d)

**ASSUMPTIONS AND METHODOLOGY:** With teachers no longer contributing toward paying the cost of substitute teachers, local educational agencies (LEAs) will therefore bear the cost of paying for substitutes. Both allotments (deducted pay allotted back to the LEAs<sup>2</sup>) and expenditures (increased number of substitutes) will likely be affected.

This analysis builds upon historical data on the number of personal leave days used by teachers from the 2003-04 school year – the last year for which data is available – to determine deductions received, and expenditures on, substitute teachers. These deductions and expenditures are then adjusted to derive the estimated deductions and substitute teacher expenditures for the current 2006-07 school year, based on the change in the number of teachers from 2003-04 to 2006-07. This bill has different effects depending on the funding source (i.e., State, local, or federal) of the teacher, so results are broken out by funding source. For analysis of future years, the teacher population is predicted to grow consistent with the compound annual growth rate (CAGR) of teachers from each funding source experienced from 2003-04 to 2006-07. The chart below demonstrates how 2006-07 school year costs are derived from actual 2003-04 data, and how each teacher population is predicted to grow in future years:

	<b>FTE 2003-04</b>	<b>FTE 2006-07</b>	<b>% change (03-04 to 06-07)</b>	<b>CAGR</b>
State-Funded	77,416	84,831	9.58%	3.10%
Locally-Funded	6,122	5,962	-2.60%	-0.88%
Federally-Funded	5,895	5,982	1.48%	0.49%

### **Estimating Receipts and Expenditures from Historical Data**

#### State-Paid Teachers

In fiscal year 2003-04 – the last year for which data is available – 32,651 State-paid teachers used approximately 67,592 personal leave days (average of 2.07 days per teacher taking personal leave).<sup>3</sup> At \$50 per day, the total amount deducted from those teachers’ salaries and re-allotted to the LEAs was approximately \$3.4 million. Assuming a total cost to the LEA based on daily substitute teacher pay of \$72.66<sup>4</sup>, total expenditures for substitutes for FY 2003-04 were approximately \$4.9 million for State-paid teachers. The substitute deduction therefore offset approximately 69% (= \$3.4/\$4.6 million) of the cost of substitute teachers.

In order to calculate 2006-07 fiscal year costs, the above numbers are increased based on the increase in number of State paid teachers. From 2003-04 to 2006-07, the number of State paid teachers rose by 9.58%. Daily substitute pay has remained constant, so all other numbers are simply increased by 9.58% to arrive at estimates for the 2006-07 school year.

The 2006-07 estimates must be carried forward through the 2011-12 school year in order to provide an appropriate counterfactual. That is, expenditures deriving from this bill in future years must be compared against the expected expenditures *under current policy*. In order to estimate expenditures under current policy, the number of State paid teachers is increased annually by

<sup>2</sup> The “substitute deductions” actually come out of State allotments to the LEAs for State teacher salaries, then are re-allotted back to the LEAs to help pay for substitutes. Thus, given a fixed number of leave days taken by State paid teachers, eliminating the substitute deduction would not increase expenses to the LEA, but would eliminate the State funds allotted to them to help cover expenses. For locally paid teachers, the substitute deduction simply shifts expenditures from teacher to substitute pay, so elimination of the substitute deduction effects only expenditures.

<sup>3</sup> Based on actual data for all teachers in FY 2003-04; estimates of days taken by State, local, and federal teachers are based on the number of teachers in each of those categories. Assumes that teachers taking personal leave are distributed proportionally across the categories.

<sup>4</sup> Includes Social Security tax.

3.10%. These teachers are still expected to take an average of 2.07 personal leave days per year. The table below shows:

- *actual* expenditures for 2003-04;
- *estimated* expenditures for 2006-07 (adjusting 2003-04 numbers by the actual change in number of teachers); and
- *estimated* future expenditures that would occur under *current* policy (adjusting 2006-07 numbers by the CAGR from 03-04 to 06-07).

**Expenditures on State Paid Teachers – Current Policy**

	2003-04	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
State paid teachers using leave	32,651	35,779	36,886	38,028	39,206	40,419	41,671
Personal leave days taken	67,592	74,066	76,360	78,724	81,161	83,674	86,264
Amount deducted (\$50 per day)	\$3,379,600	\$3,703,319	\$3,817,975	\$3,936,181	\$4,058,046	\$4,183,685	\$4,313,213
Gross substitute costs	\$4,911,488	\$5,381,941	\$5,548,568	\$5,720,353	\$5,897,457	\$6,080,045	\$6,268,285
<b>Net substitute costs</b>	<b>\$1,531,888</b>	<b>\$1,678,622</b>	<b>\$1,730,593</b>	<b>\$1,784,172</b>	<b>\$1,839,411</b>	<b>\$1,896,360</b>	<b>\$1,955,072</b>

Locally and Federally Paid Teachers

In FY 2003-04, 2,434 locally paid teachers used approximately 5,039 leave days (total deduction = \$251,950) and 2,475 federally paid teachers took approximately 5,124 leave days (\$256,200). In these cases, the substitute deduction simply reduces the effective net cost to the LEA associated with substitute teachers.<sup>5</sup> Total cost of substitutes for locally paid teachers was \$366,153; for federally paid teachers total cost was \$372,329. Taking into account the \$50 deduction from teachers, the LEAs therefore expended an effective net of \$114,203 for substitutes associated with locally paid teachers and a net of \$116,129 for those associated with federally paid teachers.

In order to calculate 2006-07 fiscal year costs, the above numbers are adjusted based on the change in the number of locally and federally teachers since 2003-04 (-2.60% and 1.48%, respectively).

This provides the following estimates for locally and federally paid teachers:

**Expenditures on Locally Paid Teachers – Current Policy**

	2003-04	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Local paid teachers using leave	2,434	2,371	2,350	2,329	2,309	2,289	2,269
Personal leave days taken	5,039	4,908	4,865	4,822	4,780	4,738	4,697
Amount deducted (\$50 per day)	\$251,950	\$245,394	\$243,247	\$241,118	\$239,008	\$236,917	\$234,844
Gross substitute costs	\$366,153	\$356,625	\$353,504	\$350,411	\$347,345	\$344,305	\$341,293
<b>Net substitute costs</b>	<b>\$114,203</b>	<b>\$111,231</b>	<b>\$110,258</b>	<b>\$109,293</b>	<b>\$108,336</b>	<b>\$107,388</b>	<b>\$106,449</b>

<sup>5</sup> Since expenditures for teachers are reduced by the amount of the substitute deductions and the deducted funds can then be used to pay substitutes instead, the “effective net cost” for substitutes can be viewed as being the actual expenditure less the amount covered by substitute deductions.

**Expenditures on Federally Paid Teachers – Current Policy**

	<b>2003-04</b>	<b>2006-07</b>	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>	<b>2010-11</b>	<b>2011-12</b>
Fed. paid teachers using leave	2,475	2,512	2,524	2,536	2,549	2,561	2,574
Personal leave days taken	5,124	5,200	5,225	5,251	5,277	5,303	5,329
Amount deducted (\$50 per day)	\$256,200	\$259,988	\$261,263	\$262,544	\$263,832	\$265,126	\$266,426
Gross substitute costs	\$372,329	\$377,834	\$379,687	\$381,549	\$383,420	\$385,301	\$387,190
<b>Net substitute costs</b>	<b>\$116,129</b>	<b>\$117,846</b>	<b>\$118,424</b>	<b>\$119,005</b>	<b>\$119,588</b>	<b>\$120,175</b>	<b>\$120,764</b>

**Effects of New Policy on Utilization**

It is reasonable to assume that the current “substitute deduction” policy has dampened teachers’ utilization of earned personal leave days. With the deduction eliminated, one might expect increased utilization. In FY 2003-04, approximately 40% of teachers used an average of 2.07 days of personal leave. No information is available on how utilization might be affected by the policy change. This analysis therefore assumes that utilization will increase by some amount, possibly up to 100% of teachers utilizing 2 days of personal leave each year. [As no information is available on the current amount of personal leave days that are earned but unused (and thus carried forward for use in a future year<sup>6</sup>), the analysis assumes simply that up to 100% of all earned leave time in a given year will be utilized.]

Additionally, teachers might have accrued personal leave days that they would utilize in the first year of this new policy. To account for use of leave days that are carried forward into FY 2007-08, this analysis assumes an average utilization of 2 *additional* days per teacher in the first year of the new policy. The following chart illustrates the number of personal leave days projected to be earned and used per year for each category of teacher and total expenditures by LEAs for related substitute teachers.

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<sup>6</sup> As per G.S. 115C-302.1(d) personal leave may be accumulated to a maximum of five days.

## Projected Utilization and Cost of Teacher Personal Leave Days Under *New Policy*

	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12
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### STATE

Number of Teachers	87,458	90,165	92,957	95,835	98,802
Days Earned/Taken (2 per yr)	174,915	180,331	185,914	191,670	197,604
Annual Expenditure by LEAs	\$12,709,989	\$13,103,494	\$13,509,182	\$13,927,431	\$14,358,629
One-time Expenditure	\$12,709,989				
<b>Total LEA Expenditures</b>	<b>\$25,419,977</b>	<b>\$13,103,494</b>	<b>\$13,509,182</b>	<b>\$13,927,431</b>	<b>\$14,358,629</b>

### LOCAL

Number of Teachers	5,910	5,859	5,807	5,757	5,706
Days Earned/Taken (2 per yr)	11,821	11,717	11,615	11,513	11,412
Annual Expenditure by LEAs	\$858,932	\$851,416	\$843,966	\$836,581	\$829,260
One-time Expenditure	\$858,932				
<b>Total LEA Expenditures</b>	<b>\$1,717,863</b>	<b>\$851,416</b>	<b>\$843,966</b>	<b>\$836,581</b>	<b>\$829,260</b>

### FEDERAL

Number of Teachers	6,012	6,041	6,071	6,100	6,130
Days Earned/Taken (2 per yr)	12,023	12,082	12,141	12,201	12,261
Annual Expenditure by LEAs	\$873,646	\$877,931	\$882,237	\$886,563	\$890,911
One-time Expenditure	\$873,646				
<b>Total LEA Expenditures</b>	<b>\$1,747,293</b>	<b>\$877,931</b>	<b>\$882,237</b>	<b>\$886,563</b>	<b>\$890,911</b>

### Fiscal Impact

#### State Paid Teachers

In order to calculate the fiscal impact of this bill, the projected expenditures related to personal leave taken under *this* bill must be compared against the projected expenditures related to personal leave taken under *current* policy. The annual fiscal impact is calculated as follows:

$$\begin{aligned}
 & \text{LEA substitute expenditures (new policy)} \\
 & \text{(plus) Lost teacher deductions} \\
 & \text{(minus) } \underline{\text{Gross LEA substitute expenditures (old policy)}} \\
 & \quad \quad \quad \mathbf{\text{Additional LEA Expenditures}}
 \end{aligned}$$

These additional LEA expenditures would either have to be absorbed by the LEAs from local funds, or the State would need to appropriate more funding to cover the costs of substitute teacher pay. *While the bill has no net impact on State General Fund expenditures, it seems likely that there will be pressure for the State to appropriate more in the non-instructional support allotment that LEAs can use to pay substitute teachers. Therefore, the box at the top of the analysis, and the table below both assume that the General Assembly will increase General Fund appropriations accordingly.*

### Additional General Fund Expenditures for State Paid Teachers

	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12
LEA expenditures (new policy)	\$25,419,977	\$13,103,494	\$13,509,182	\$13,927,431	\$14,358,629
Lost teacher deductions	\$3,817,975	\$3,936,181	\$4,058,046	\$4,183,685	\$4,313,213
LEA expenditures (old policy)	\$5,548,568	\$5,720,353	\$5,897,457	\$6,080,045	\$6,268,285
<b>Additional GF Expenditures</b>	<b>\$23,689,384</b>	<b>\$11,319,321</b>	<b>\$11,669,771</b>	<b>\$12,031,071</b>	<b>\$12,403,557</b>

#### Locally and Federally Paid Teachers

LEA expenditures for substitutes for locally and federally paid teachers will similarly increase. The LEA's effective net expenditures for substitutes will no longer be reduced by \$50 per substitute. This will lead to increased expenditures for the LEAs. In addition, increased utilization of teacher personal leave will increase baseline expenditures for substitutes. The result of these increases will be fewer local and federal resources available to LEAs to be used for various other purposes (such as local teacher supplements and federally funded services for children with special needs).

### Additional LEA Expenditures for Locally Paid Teachers

	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12
LEA expenditures (new policy)	\$1,717,863	\$851,416	\$843,966	\$836,581	\$829,260
Lost teacher deductions	\$243,247	\$241,118	\$239,008	\$236,917	\$234,844
LEA expenditures (old policy)	\$353,504	\$350,411	\$347,345	\$344,305	\$341,293
<b>Additional GF Expenditures</b>	<b>\$1,607,605</b>	<b>\$742,123</b>	<b>\$735,629</b>	<b>\$729,192</b>	<b>\$722,811</b>

### Additional LEA Expenditures for Federally Paid Teachers

	Fiscal Year 2007-08	Fiscal Year 2008-09	Fiscal Year 2009-10	Fiscal Year 2010-11	Fiscal Year 2011-12
LEA expenditures (new policy)	\$1,747,293	\$877,931	\$882,237	\$886,563	\$890,911
Lost teacher deductions	\$261,263	\$262,544	\$263,832	\$265,126	\$266,426
LEA expenditures (old policy)	\$379,687	\$381,549	\$383,420	\$385,301	\$387,190
<b>Additional GF Expenditures</b>	<b>\$1,628,869</b>	<b>\$758,926</b>	<b>\$762,648</b>	<b>\$766,388</b>	<b>\$770,147</b>

**SOURCES OF DATA:** Department of Public Instruction

**FISCAL RESEARCH DIVISION:** (919) 733-4910

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**DATE:** April 25, 2007



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